

D.T.E. 01-31

Investigation by the Department of Telecommunications and Energy on its own Motion into the Appropriate Regulatory Plan to succeed Price Cap Regulation for Verizon New England, Inc. d/b/a Verizon Massachusetts' intrastate retail telecommunications services in the Commonwealth of Massachusetts

VOTE AND ORDER TO OPEN INVESTIGATION

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I. INTRODUCTION

In Petition of New England Telephone and Telegraph Company d/b/a NYNEX for an Alternative Regulatory Plan for the Company's Massachusetts intrastate telecommunications services, D.P.U. 94-50 (1995) ("Price Cap Order"), the Department of Telecommunications and Energy ("Department") approved a petition by New England Telephone and Telegraph Company d/b/a NYNEX, now Verizon New England, Inc. d/b/a Verizon Massachusetts ("Verizon") to replace traditional "cost plus" regulation of its retail rates and profits (also known as "rate of return regulation") with an alternative form of regulation called a price cap. Under the price cap form of regulation in effect since 1995, the Department controls Verizon's retail rates according to a formula that accounts for inflation, productivity growth, and certain other changes in costs beyond the control of the company, but the Department does not directly control the level of Verizon's profits. In addition, the Department froze rates for basic residential service until August 2001.

In the Price Cap Order, the Department found that a well-designed price cap plan should be of sufficient duration to provide Verizon with the appropriate economic incentives and certainty to allow the company the confidence to make and follow through with strategic business decisions. Thus, the Department found it appropriate to begin review of the price cap after six annual price cap filings, to coincide with the end of the residential rate freeze in effect until August 2001. At that time, the Department anticipated that it would initiate a review of the appropriate regulatory plan for Verizon. Verizon has made its sixth annual price cap filing, which the Department currently is reviewing in D.T.E. 00-101. Since the beginning of the price cap plan, Verizon has returned \$296 million to ratepayers.

II. VOTE TO OPEN INVESTIGATION

Consistent with our findings in the Price Cap Order for six annual filings for the current price cap form of regulation, the Department votes to begin its review of appropriate regulatory proposals for Verizon's retail services. Accordingly, on its own motion, the Department hereby votes to open an investigation to review the appropriate policy to succeed price cap regulation for Verizon's retail intrastate telecommunications services in Massachusetts. The investigation is docketed as D.T.E. 01-31.

We begin our investigation by directing Verizon to file with the Department within thirty (30) days from the date of this Order, a proposed retail price plan for its Massachusetts intrastate operations. Verizon's proposal must include, at a minimum, the following:

- 1) a component for regulating or deregulating retail prices;
- 2) a plan for regulating service quality; and
- 3) a plan for intrastate access charge reform similar to that approved by the Federal Communications Commission ("FCC") for interstate charges. See Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, CC Docket Nos. 96-262 and 94-1, Sixth Report and Order, Low-Volume Long-Distance Users, CC Docket No. 99-249, Report and Order, Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Eleventh Report and Order, 15 FCC Rcd 12962, petitions for review pending, Texas Office of Pub. Util. Counsel et al. v. FCC, 5th Cir. Nos. 00-60434 (and consolidated cases)(2000) ("FCC CALLS Order").

The Department invites all interested persons who are substantially and specifically affected by the issues under investigation to petition to intervene in this proceeding. Petitions to intervene in this docket must be filed with the Secretary of the Department by 5:00 p.m. on Tuesday, April 17, 2001. The Department will also hold a procedural conference on Friday, April 6, 2001, following a public hearing at the Department's offices, to establish a procedural schedule for the orderly conduct of this investigation. The Department intends for this proceeding to be conducted as an adjudicatory proceeding, as defined in G.L.c. 30A,

§ 1(1).

III. ORDER

Accordingly, the Department

VOTES: To open an investigation into the appropriate regulatory plan for Verizon's retail intrastate telecommunications services to succeed the plan adopted in the Price Cap Order, D.P.U. 94-50 (1995); and it is

ORDERED: That Verizon New England, Inc. d/b/a Verizon Massachusetts must develop a regulatory plan for Verizon's retail intrastate telecommunications services for the Department's consideration, and that this proposal shall be filed with the Department within thirty (30) days of the issuance of this Order; and it is

FURTHER ORDERED: That within three business days of the date of this Order, the Secretary of the Department shall serve a copy of this Order on all parties to Verizon's Sixth Price Cap Filing, D.T.E. 00-101 and the Price Cap Order, D.P.U. 94-50 ; and it is

FURTHER ORDERED: That petitions to intervene in this investigation shall be filed with the Secretary of the Department by Tuesday, April 17, 2001 at 5:00 p.m.; and it is

FURTHER ORDERED: That a procedural conference in this proceeding will be held at the offices of the Department on Friday, April 6, 2001; and it is

FURTHER ORDERED: That within three business days of the date of this Order, the Secretary of the Department shall publish the accompanying legal notice.

By Order of the Department,

_____/s/ _____

James Connelly, Chairman

____/s/_____

W. Robert Keating, Commissioner

____/s/_____

Paul B. Vasington, Commissioner

____/s/_____

Eugene J. Sullivan, Jr., Commissioner

____/s/_____

Deirdre K. Manning, Commissioner